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THE TRAP OF RENEGOTIATION

By JUNIUS B. WOOD

RENEGOTIATION is a tricky package with an alluring title. Under the guise of controlling profits, it is indeed an instrument for the control of business, and has many features suggestive of the Fascist pattern.

This is how renegotiation works. The government offers the businessman a defense contract. To get it, he must agree not to fill the order, but also to subject the conduct of his business to government supervision. He nominally runs the business. But concealed in the contract is the government's privilege to determine how much profit he shall make (not only on the contract itself, but on all his operations), and to scrutinize the management of his business.

Hitler rode into power with much the same devious methods. He sold the Rhine industrialists the idea of a partnership between government and business, which they accepted with alacrity and contributed toward his ascent to power. The result of the partnership we know. It could not be otherwise. Political power and economic power cannot remain on a basis of equality. This is a principle the American businessman who enters into partnership with the government, through a renegotiable contract, should keep in mind.

Renegotiation, like other so-called temporary measures, has grown like a snowball. It arrived in World War II. The military needed new types of equipment, the production costs of which were not known. The government gave the cost-plus go-ahead signal, with the proviso that if the profits proved "excessive" a share would go to the Federal treasury.

The renegotiation of contracts was then the exclusive privilege of the Departments of Defense, Army, Navy and Air Force. Each could award contracts on this basis, and each could decide, when the time came to pay the bill, that either the prices were excessive or the profits too high. If the ruling was on profits, the excess went to the Treasury. If the ruling, based on profits also, was to readjust the contract price, the savings remained in the departments' funds and were available for the purchase of more supplies.

In making its ruling, the investigatory board took into consideration the contractors' total defense contracts, not each separately. Most of the contractors have both civil and government business, and it was obligatory for them to open all their records so that the board could decide what is civil and what defense business. The profits under investigation covered the entire business of the contractor, since a splitup between the two kinds of operations is difficult, if not impossible.

The Supreme Court has decided that renegotiation does not violate the Constitution.

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RENEGOTIATION, initiated to meet a temporary war emergency, was advanced by Congress to cabinet or ambassadorial level. A Renegotiation Board, a new administrative agency, was created. Its members are appointed by the President, subject to Senate approval. Instead of only four departments doing their own renegotiating, the Board does it for nineteen departments and agencies. More can be added at any time. The top Board sits in Washington with Regional Boards, which it names, in Washington, New York, Los Angeles, Chicago, Detroit and Boston. More will follow.

The new law covers all defense contracts, either awarded or completed, between January 1, 1951 and December 31, 1953. The funeral day is set but renegotiation will not die without a fight. "Temporary" agencies never do.

Annual profits of over $250,000 for a prime contractor, or $25,000 for a subcontractor, render the contract renegotiable. If the profits are $400,000, the top Renegotiation Board handles it. If less, an area Regional Board acts. However, every businessman having a contract relating to defense must report on his total annual business, not on his defense work alone.

Almost any article can put a contractor under the broad mantle of defense work. The manufacturer or merchant who sells a lead pencil to the holder of a renegotiable contract gets in. Some raw materials, chiefly farm and mineral, are exempt. A raw potato would not count in renegotiated profits; if dehydrated, it would.

A tax collector may audit a citizen's books to determine whether his return is correct, but he must proceed according to law. A renegotiation board, an appointed body, is a law unto itself. Checking or auditing the annual return of a business that has a government contract is only a start in renegotiation.

A board, national or regional, decides what portion of the year's total profits is "excessive" — to be paid to the Federal Treasury; the contractor has little to say about it. No law defines "excessive" and opinions of board members may differ for each region or for each business in a region.

To reach a decision, a board has practically unlimited authority. It can, actually is expected to, investigate all operations of the contractor for the previous year. It will decide, still fixing its own standards, whether his operations were economical or wasteful. The board goes into the prices paid for materials and into the operations of those who supply them. It weighs the productive efficiency of machines, wage scales, working conditions and even customer relations and marketing practices. The owner is permitted to run his business, but a Renegotiation Board passes judgment on his management and doles out his profits. That is the Fascist pattern.

The United States has a Constitution and an owner's rights to manage his own business are presumably protected by law. But, bureaucracy has learned a few things since the Supreme Court invalidated the Blue Eagle of the late Hugh Johnson.

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Renegotiation, having received the blessing of the Supreme Court, by-passes all lower tribunals except the over-worked Tax Court of the United States. In effect, the decisions of the top Renegotiation Board, to which the decisions of the Regional Board may be appealed, is final.

WHEN A CONTRACT is awarded, the contractor signs a pledge to renegotiate all his business at the end of a year, thus technically waiving any right to question the Act's constitutionality in court. Even before he is permitted to bid on a contract, he must certify that he will not cheat, hire "5-percenters" or otherwise misbehave. Renegotiation leaves no loopholes to escape from its strict control.

More than 25,000 contractor profit returns are expected for the first year, 1952. Some 2,000 are still being renegotiated from the 1948 and earlier laws. Some contractors will be cleared quickly, either because the profit on their year's business is below the minimum for renegotiation or because the profit was not "excessive". The others get six months to file more detailed returns. A board can wait a year longer before starting to process these returns. It has two years more to complete the renegotiation. Even then both sides can agree to extend the time.

Renegotiation boards will soon be swamped with returns. In time, the hard pressed Tax Court will be buried even deeper with appeals. Under these hard rules of renegotiation, a contractor may wait 3½ years after filing his first return before he knows how much profit he will get for a job he started working on 4½ years earlier. The mental strain and financial risk to business is plain to anyone.

Official reports of "excessive" profits recovered for the Treasury will seem like golden nuggets in a spendthrift age. But, they will not show how much it has cost government and business in both time and dollars to find the flecks of gold. Even less will they show the cost to the consuming public from substituting haphazard profit renegotiation for the old system of equal prices for all customers.

Most holders of government contracts also produce for private trade. If prices are too high, the government takes part of the profits. The private consumer has paid the same prices as the government, but he does not get a refund. The Treasury windfall sounds good but much of it will be actually taken out of consumers' pockets by the higher prices.

Only the government stands to gain from these renegotiable contracts. It's a heads-I-win-tails-you-lose arrangement. If increased cost of materials, higher wage scales and other factors eat up a contractor's anticipated profits, or cause a loss, before the end of the year, the contractor is the only sufferer. Renegotiation, concerned only with profits, can do nothing for him. As a Board member explained: "Renegotiation is a one-way street."

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"WHY WORK to show a profit if a Renegotiation Board is going to take most of it?" is a natural question. A contractor might hide his profits by increased salaries, purchases at fancy prices, discreet investments and other inflated overhead items. Thus, no profit, certainly no "excessive" profit, would show in a return to a Board.

To prevent such sharp financing, the Renegotiation Boards have authority to supervise and inspect the establishments and operations of holders of defense contracts. Naturally, if no profits show at the end of a year, the government gets nothing. But the Board can decide that the contractor has been extravagant or wasteful and warn departments and agencies against awarding him further contracts.

"Why economize if a government takes the profits in the end?" also sounds logical. Renegotiation tends to destroy the incentives for efficiency, for new ideas, improved methods and the other dynamic forces by which American production leads the world. If renegotiation does not sap the vitality of American producers through government controls and interference, it will be because of the inherent American instinct to do a job well. But, lackadaisical plant operations can become a habit, even with Americans.

Renegotiation operates under rules and procedures devised and enforced by individual officials instead of under established trade practices and written laws. Board decisions are extra legal, purely arbitrary, and can vary not only according to the personnel of the Board but also according to the political opinions of the contractor. The Board makes the law.

There are, approximately, 4,000,000 business establishments in the United States, from one-man outfits to mighty corporations, from homecraft to highly technical and mechanized operations. Not only the big producers but many of the smaller ones, as subcontractors or suppliers, may come under renegotiation, since so much of the nation's business is channeled into government lines.

No individual or group of five individuals can judge the efficiency of the varied industry of the United States, from producing a delicate scientific instrument to bulldozing a thousand tons of dirt. That being impossible, members of the Boards are picked for other qualifications. Of the top renegotiation Board in Washington, three are lawyers, one is a broker and the fifth is a professor of accounting. It is, as it must be, a political body.

The arbitrary powers over business given to Renegotiation Boards is a standing invitation to exercise influence and discrimination. Appointees may be men of tested probity but Washington's record shows what so often happens — as with RFC, the Internal Revenue Bureau and others that do not have anywhere near the arbitrary authority of renegotiation. Political influence, social connections, personal friendships and substantial presents easily become part of the official atmosphere. Renegotiation is inviting.

The individuals who direct renegotiation are incidental. They will come and go. Even dictators are not indestructible. The danger is that this government control and dictation over the profit incentive may permanently replace the individual initiative and enterprise which has made a great nation.

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HUMAN EVENTS

FRANK C. HANIGHEN, *Editor* FRANK CHODOROV, *Associate Editor*

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Thunder from the South: Not more than a hundred yards from this desk, old line Democratic politicos are wringing their hands over the effects of the President's "give 'em hell" speech of last Saturday night. Within the past 48 hours, these Democratic leaders — sitting in the swanky Ring building down the street, where they have their headquarters — have developed great qualms and apprehensions.

It is not the "class angle" nature of the President's speech (that recalled 1948 and victory) which worried them. It was the President's uncompromising stand in favor of FEPC that scared the boys.

For, today, there is a growing opinion here that the "civil rights" utterance has scuttled chances for an amicable settlement between Northern and Southern wings of the Party at the coming convention. In fact, Democratic National Chairman Frank McKinney has admitted that the President's speech may end the current pourparlers to work out a compromise civil rights plank for the platform of the Convention.

And prospects for a Stevenson-Russell slate have gone glimmering. In the past six weeks, ever since Truman announced his withdrawal from the race, it was assumed that the Southern revolt had ended. Now it is flaring up again. And some go so far as to say that the situation is back to where it was before Truman, in large part prompted by the seriousness of the Southern revolt, announced his abdication.

Various signs and portents mark this situation:

(1) A week ago, Mississippi Democrats (who are Dixiecrats) made plain that they will support no slate (even if Russell is on it) which has a platform containing a civil rights plank.

(2) Governor James F. Byrnes is hard at work in Dixie urging a "concert" of attitude and action among the various Southern states to defend their position.

(3) There is increasing talk that Russell, however strongly he may cling to hopes for unity at Chicago, is necessarily a "captive" of his Southern followers. And the "Dixiecrat" radical wing of this following sets the pace.

(4) The President's attack on the "states rights" tidelands oil bill has weakened Administration elements in the Democratic Party in Louisiana and Texas.

(5) Around Washington, those who know the South serve the warning that the Southerners could revolt and still preserve the formality of remaining "Democrats". For, it cannot be too often explained that the Southerners regard themselves as the real inheritors of the Democratic Party tradition. If the Northern wing does not go along with them, they are prepared to run their own candidate, perhaps Russell, under a Democratic rubric on the ballot — no matter whether Stevenson or Kefauver or Harriman is the nominee at Chicago. In the Southern view, the Northern wing will then have "seceded" from the real Democratic Party.

(6) Finally, and most significantly, Senator Russell on the morrow of the President's speech made a pointed statement to the Young Democratic Club of the District of Columbia: "I never have made the flat statement that I would never leave the party under any conditions." (Washington Post, May 19.)

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And as a corollary to the above threatening situation in the Democratic Party, Taft partisans are making the point that this favors their candidate in the GOP nomination race. The argument — "Ike is the only Republican who can win the election" — necessarily becomes weaker, they say, if there is a prospect that the South will deduct 128 electoral votes from the Democratic total.

Kefauver: The Tennessean's chances (if there really ever were any) for the nomination blew up at the very time when, and in the very place where, his strength was hailed as most promising. Northern "liberals" drew the conclusion from the Florida primary that Kefauver had shown clearly his strength in the South. He had challenged the all-powerful Southern leader, Senator Russell, in a Southern state and had given him a run for his money. Actually, the facts pointed directly to a contrary conclusion: Kefauver runs badly among "his own people", and since Northern leaders do not favor him, his cause has a dim future.

Study of just where in Florida Kefauver picked up votes and where he didn't demonstrates this conclusion beyond a shadow of a doubt. He ran strongly only in those areas of the state where Northerners predominate — in Dade County (Miami), in Jacksonville and other "tourist" places. Those are the spots where retired people and invalids from north of the Mason-Dixon line have settled in large numbers. In the rest of the state, in the rural areas where the Northern invasion has not penetrated (where native Floridians and people from neighboring Southern states predominate), Russell won by commanding majorities. In short, Florida is no longer a typical Southern state and the fact that the Tennessee candidate displayed some strength against his opponent has no significance as a Southern phenomenon.

As a matter of fact, the legend of Kefauver as a crusading crime prosecutor apparently exerts less power south of the Mason-Dixon line. The magazine *Inside Detective* in its current (June) issue features on its cover, "In Kefauver's Backyard — An Exposé of Fraud, Politics and Murder" and the story presents a grim situation in McMinn County, Tennessee, far worse than those in Cook County, Illinois or Kings County, New York. The piece is written by a Southern newspaperman who commented: "Even the Senator from Tennessee, who with great fanfare chased crime and corruption from big city to big city, was too busy seeking the Presidency of a great, free nation to look into crime and terrorism in his own backyard. . . . Democracy and justice demand that Senator Kefauver turn his eye from the White House long enough to see the skeleton in his own closet."

Dinners: A prominent member of the Administration of Johns Hopkins University (Baltimore) recently attended a banquet of Yale alumni, and when called upon for the inevitable "brief remarks", engaged in some joshing at the expense of Hopkins. "In behalf of Johns Hopkins", he said, "I want to acknowledge the obligation Johns Hopkins feels for the great institution of learning in New Haven. And wishing to show the appreciation of Johns Hopkins to Yale, I think that perhaps the best way of showing it is to offer Yale the following: one lacrosse player and Owen Lattimore."

. . . . At another dinner in the past week, this one in Washington, more serious exchanges were heard. Governor Fine of Pennsylvania was a guest. Fine, who is in a position to deliver most of Pennsylvania's seventy-odd delegates to the GOP convention, did not make clear to others at the dinner just which candidate he preferred. But, in a horse-race finish, how he turns may prove decisive. Hence, a friend of ours who sat near to Fine at the dinner makes an enlightening observation: "Fine was very 'cagy' in speaking about Ike, benevolent about Taft and effusively enthusiastic about General MacArthur."

Around the Town: Publication of Whittaker Chambers' epochal book *Witness* (Random House, $5.00) this week, has stirred great interest here in a projected hearing of the House Un-American Activities Committee. That body, it is reported, will call Dr. E. U. Condon, former head of the Bureau of Standards, key scientist for many years in the Government, and once under fire for his "liberal" views. Chambers in his book describes an employee of the Bureau who was — the author

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says — an important figure in the Communist espionage ring. Chambers does not give the man's real name, but he is believed to have been a scientist on Condon's staff for many years.

The McCarran Internal Security Committee of the Senate, it is reported, has much the same information on this figure as that possessed by the House Committee. If the House body should develop "cold feet" and call off the projected hearings, the Senate group may go ahead on its own.

. . . . There are rumors that the Administration has the text of the unpublished parts of the famous Patton diary. (General Patton's widow has refused to permit publication of these entries, which present an unfavorable view of Eisenhower's conduct of the European campaigns of 1944-5.) Gossip has it that, if Ike were the GOP nominee, the Administration would "leak out" this anti-Eisenhower material.

Germany: General Eisenhower is leaving a very ominous situation in Germany, the key area without which (say military men) no real defense of Western Europe is possible. Experts here privately express doubts that the West German Government of Chancellor Adenauer can long survive the growing unpopularity of his concessions to Western powers. The people also grumble about French retention of the Saar, and various other disabilities.

Among the latter are some surprising practices, as may be seen in the following letter which we have received from a German newspaperman: "You will recall the great problem of dismantling. Until little over a year ago, this question was much discussed. Only after Germany was asked to work for western defense was the dismantling officially ordered stopped. However, I have just read a report that in the Krupp factory men are still working on the dismantling of equipment at one end, and at the other end men are at work rebuilding it.

"In Hamburg, the Military Security Board is trying to sell back to German interests the docks taken from German shipbuilders in that city. If Germans do not wish to buy these back, the Board will sell them as scrap iron in England. Right now, the German shipbuilders have not the capital, about 1½ million pounds sterling, to pay for their own docks. However, it is hoped that the West German Government will buy these back and rent them to the shipbuilders. As yet the negotiations have not come to a conclusion.

"In Hamburg, there is another interesting affair. In the plants of the Motorenwerke Hamburg, a subsidiary of the MAN (Maschinenfabrik Augsburg-Nuremberg) there are 60 cranes able to carry from 5 to 160 tons. They were built in 1938 at a cost of 70 million marks. Now, a group of London lawyers have taken an interest in these cranes and want to get them for Britain, on the ground that they are war booty."

Revisionism: Those who are rewriting official history have received in the past week valuable material for presenting a true picture of General MacArthur's actions in the period just before he was dismissed by Truman.

According to the Administration version, MacArthur obtained knowledge early in the spring of 1951 that the Administration was about to start truce talks and to broach a cease-fire arrangement with the Chinese and Korean Reds, and that the General sought to upset these plans by his own offer of a cease-fire. The implication was that he was trying to head off an Acheson peace formula.

Now, a former member of his wartime staff comes forward and claims that MacArthur asked the Chinese to talk truce and cease-fire because the General had intercepted a highly significant Red message. General Bonner Fellers, this former member of his staff, in a radio address on May 11 in Baltimore, said the message was sent from the Red headquarters at the front to Peiping and that it asked the Red Government to grant a cease-fire "until we can build up". Fellers gave the gist of the message as follows:

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"We are out of ammunition. We are in a very untenable position at the front. Our losses are terrific. We've got to have tanks, we've got to have air power. Get us a cease-fire until we can build up."

Fellers said in his broadcast: "It was a result of that message that caused MacArthur to ask his opposite number, the Chinese commander, to talk truce or to cease fire. This was one of the reasons why MacArthur was lifted out. They said he'd gone way beyond his job as a military commander." (This speech, recorded, was presented by Lou Corbin of Radio Station WFBR in Baltimore.)

We learn that the Administration generals have shown great displeasure with Fellers' statements. But, it is noteworthy that the Pentagon has not officially denied them.

Another Swindle? It was James Madison who said you could depend on the State to turn every circumstance to its advantage. President Truman adds new evidence in support of Mr. Madison. With a heart bleeding for the sufferers of flood, he asks Congress to set up a system of Federal flood damage insurance.

The word "insurance" is fraudulently used. You can depend on it, if Congress does as Mr. Truman asks, that the "premiums" paid in on such "insurance" will become taxes; that is, they will be thrown into the Treasury, where they will become subject to any and all appropriations. The "premiums" will not be held in a reserve for the sufferers from floods; they won't be invested in any business securities, as insurance companies do with their premiums. The "premiums" will actually be taxes, just as spendable as any other taxes. Long before any benefits accrue to flood sufferers, who paid in these "premiums", the money will have been spent; the government will then have to resort to new taxes to make good on its "insurance" obligations.

That is true of the "insurance" swindle known as social security, or the swindle of veteran's "insurance". In both cases the "premiums" are spent and then replaced with government bonds. The assumption is that the interest on the bonds will pay the benefits. But, the interest on the bonds is derived from taxes; so that, in reality, the benefit payments come from new taxes, not from "premiums" collected from the "insured".

But, if Congress follows Mr. Truman's suggestion, a new bureau will have to be set up and new jobs will be created — in short, the State will be strengthened. That's what Mr. Madison meant.

Educational Delinquency: After two years of study, the High School Principals Association (New York) has issued a report on "Absence, Truancy and Delinquency". The substance of the report is that "problem pupils" have "overwhelmed the schools, have interfered with the instruction of their schoolmates and have spread disorder and vandalism". The remedy suggested by the report: drop such youngsters from the classes and permit them to go to work at the age of 15. (Under the present New York compulsory education law, attendance is required up to the age of 17.)

Both the report of conditions and the suggested cure throw doubt on the "democratic" theory that the individual can be indefinitely improved by education. Perhaps some people are naturally short of the capacity for learning and would be better citizens if they could express themselves in ways that do not require a knowledge of Shakespeare or trigonometry. At any rate, as the report shows, trying to force such subjects on young minds results in revolt, often of a violent nature.

However, the report does not take up a suggested idea, that perhaps what is called "progressive" education may account for delinquency among adolescents. It is a matter of police record, as well as home observation, that "impulsive, extroverted, aggressive, uninhibited" behavior shows up in younger children; the high schools inherit the "problem pupil". It is also a matter of record that the delinquency problem is on the increase. And it is a fact that the "progressive" method and delinquency have grown up side by side. Is there cause and effect, or simply coincidence, in this?

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